1697 B

A Discourse *concerning* BANKS.

AT this present time, when so much is thought to depend upon the well-modelling of a Bank in *England*, a short Account of Banks settled in other Parts, 'tis hoped, will not be unacceptable to the Publick. I am the more induced to give this Account by the sending of a Paper lately come abroad, containing *the Reasons for and against Ingrafting*, full of Notions so directly opposite to what I ever heard or understood of Banks, that there is good Ground to believe, the Author having had a Share in the Management of the B. of A. and his Opinions having prevailed, hath been in a great measure the Cause of all the false Steps that have brought so excellent a Constitution under this present Disrepute. The great Mistake of this Gentleman, which leads him into all his other Errors, is; That a Bank ought to get; and therefore to admit of new Sharers in that imaginary Profit, is a manifest Self-denial. The best way to confute his Opinion, will be, to shew the Practice of other Banks, and thereby make it appear, that they have been very useful to the Publick, and wonderfully beneficial to themselves, without ever aiming at any other Advantage than that of circulating the Whole upon part of the Capital.

There are, in several Parts of *Europe*, about 30 Banks; they vary more or less in some part of their Constitution or Management; but they are chiefly of three sorts. Some are only for Safety and Conveniency; others are for the Benefit of the Income only; and others both for Safety and Conveniency, and likewise for Benefit and Advantage.

Of the first kind are the Banks of *Amsterdam*, *Rotter-*

dam, *Hamburgh* and *Stockholm*: These Banks have no Income, no Adventurers or Sharers in their Profits: They are only great Chests, for the Conveniency of transferring from one Account to another; and where Merchants depoſite their Money, if they think it ſafer there than in their own Houſes. In Places of great Traffick, ſuch as *Amſterdam* and *Hamburgh*, all foreign Bills of Exchange and other great Paiments, are, by Law, to be paid in Bank, unleſs both Parties agree it otherwiſe; but if one of the Parties inſiſts, the Paiment muſt be made in Bank; elſe it would be very difficult for great Traders to deal for ſuch vaſt Sums as they do in both thoſe Places. Theſe Banks are under the Care and Conduct of the Magiſtracy of the Places where they are erected: and as they never trade or meddle with any Buſineſs, there is very little Trouble in their Management; two or three of the Magiſtrates having an Eye upon the Servants and Books of Transfer, direct the whole Matter. The Banks of *Amſterdam* and *Hamburgh* lend ſome ſmall Sums upon Pawns, but the Sum they have liberty to lend is limited, and the Profit thereof accrues to the Benefit of the Town, which defrayeth the Charge of the Bank, and is anſwerable for all the Money lodg'd therein: So that theſe Banks are ſafe and ſecure, and ſerve only to avoid the Trouble of Telling: which Conveniency is found of ſo great Importance for carrying on a great Trade, that no conſiderable Trading-Town can well be without it.

The Banks of the ſecond kind, that are for the Benefit of the Income only, are, the Banks of *Rome*, the Banks of *Bolonia* and *Milan*, and the Bank of *Paris*; (the Rents conſtituted on the Town-houſe of *Paris* being of the ſame nature as the Rents of the Banks of *Rome*, and ſome others in *Italy*.) Theſe Banks are made up of a certain number of Men, who in time of War or other Exigencies of the State, advanced Sums of Money upon Funds, granted *in per-*

perpetuum, but redeemable: Thoſe concern'd therein content themſelves with the Intereſt, elſe they ſell their Stock, or part thereof, when they have occaſion for the Principal. But theſe Banks keep no Caſh, or ever have any Stock of Money: They are under the Management of ſome few Overſeers, all equal in Dignity, that take care to divide the Revenue to the Proprietors; only the Bank of *Paris* hath the King for a Governour, who ſometimes diſpoſes of the Incomes at his pleaſure, or ſtops part thereof for his own Uſe. Theſe Banks are properly Funds of perpetual Intereſt, transferable and redeemable, and ſute beſt with Places of little Traffick, where the gathering into one Place a great Maſs of Treaſure might endanger the Loſs of it.

The third kind of Banks, that are both for the Conveniency of the Publick, and for the Advantage of the Undertakers, are, the ſeveral Banks of *Naples*, one of the Banks of *Bolonia*, and the Bank of *St. George* at *Genoa*: Theſe Banks did not only advance Sums of Money upon Funds of perpetual Intereſt, at the time of their Eſtabliſhment, but by their being a ſafe Depoſitory of Money, obtaining a Credit, they have been able to lend great Sums upon good Securities: Some of theſe Banks have been proſperous to that degree, as to enjoy their Revenue, upon their having in Stock only one fourth, one third, or one half of the Capital: And if I am rightly inform'd, one of them is ſo happy, that the Proprietors have the Benefit of the full Income, without having a Penny of their own in Stock; ſo great and ſo ſolid a Credit hath acquired to this Bank, the prudent and regular Conduct of its Directors. But none of all theſe Banks ever attempted to trade, much leſs concern'd themſelves in Exchanges, which of all Trades is the moſt tickliſh and dangerous: They arrived at that vaſt Credit, by keeping within Bounds, by lending upon undoubted Se-

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curities, for a ſhort time, and at a very low Intereſt. The Bank that hath the Benefit of its full Income without any Capital of their own, never exceeded the Rate of 4 *per cent.* their conſtant Practice is to take but 3 *per cent.* and ſometimes upon a Security to their liking and entire Satisfaction, they have lent at 1 *per cent. per annum.* By ſuch Methods, they are not only look'd upon as wiſe and judicious Managers, that do not venture too far upon Uncertainties; but by lending at theſe low Rates, they gain the Love of the People, and no body grudges them their Caſh, when they ſee it us'd more for the Advantage of the Publick, than for the private Lucre of the Undertakers.

The Bank of *England* is of this mixt kind: It is ſquared both for Conveniency and Safety, and alſo for Benefit and Advantage: No Bank in the World ever was ſo happily conſtituted, no Bank hath ſo great a Revenue, ſettled upon ſo good a Fund, and ſo little paid for it. Had not its Managers aim'd at greater Gains than their Income, there had been no occaſion to have call'd in more than the Subſcription-Money, which was 25 *per cent.* Their firſt Deputy Governour Mr. *M. G.* often us'd to ſay, that he would never have call'd in for more, had he not deſign'd ſome further great Undertaking: I cannot tell whether thoſe that have had the governing part ſince have acted by the ſame Spirit; but 'tis certain, that through a miſtaken Notion of Banks, *which are deſign'd to help others to trade, but not to trade themſelves*, they endeavour'd to get over and above their hundred thouſand Pound a Year. Had they been contented with their Revenue, never incroach'd upon other Mens Imployments, by dealing in Exchanges, and importing and exporting Silver; nor coveted great Profits, by lending vaſt Sums, without a Proſpect of being in a ſhort time repaid; but made uſe of the Money that was truſted in their Hands, for the Re-

Relief of ſuch as had occaſion for it, upon very good Securities, and at a very low Intereſt; they had given more Satisfaction, and had the Caſh of the whole Town; by which means, without adventuring at Sea, or running the hazard of bad Bills and of bad Correſpondents, they might by a well-ſettled Credit, upon the firſt 25 *per Cent.* or upon 50 *per Cent.* at moſt, have circulated the whole; and ſo without any other Gain, might conſtantly have injoy'd a Benefit of 16 if not of 32 *per Cent. per annum*; which is Profit enough to ſatisfy any moderate or reaſonable Man. But if a Bank grounds its Advantages upon getting beyond its Income, ſuch a Deſign will create Envy and Enemies, and the Hazards run in the Attempt of ſuch Gains, render it leſs ſafe and ſecure, and conſequently leſſen its Credit.

The Caſe being thus, *viz.* That a Bank ought not by aiming at vaſt exorbitant Gains, to ſpoil its Credit; but on the contrary, ought by a judicious and cautious Conduct, to endeavour to maintain it ſo, as to circulate the whole on part of the Stock, and thereby inſtead of 8 *per Cent.* make 16 *per cent.* or more *per annum:* what Reaſon can any Member of the preſent B. of *E.* have (except ſuch as deſire to be perpetual Directors) to be againſt an Ingraftment? They ought rather to wiſh for an Addition of new Adventurers; for 'tis evident, the greater Income it hath, and the more Members there are, the better will it be able to ſupport it ſelf, and to circulate one hundred with fifty or leſs: which in my opinion is a ſurer way of Gain, and turns to better account, than to add 2 or 3 *per Cent.* to the 8 *per Cent.* for 20 or 30000 *l. per annum* is as much, as thoſe that are ſo fond of the Trade of a Bank are in hopes to get by their Management; and for the doing of which, they muſt run great Hazards, and diſoblige an infinite number of People. But ſuch is the natural Temper of ſome Men, that they had

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rather get leſs, and have no Sharers in their Profits, than to get more, if others are alſo to reap a Benefit by it: whereas the principal Care of good Directors ſhould be, how to get the good will of Mankind, as being the beſt, if not the only way to make a Bank great and flouriſhing. Therefore 'tis a queſtion with me, whether a Bank ought to lend at any higher Intereſt than after the rate of 3 *per Cent. per annum:* This Limitation, and its being reſtrained from all Trade without exception, would ſecure to the B. of *E.* a firm and laſting Credit, and in time perhaps make it as ſucceſsful as that Bank of *Bolonia*, which injoys its Revenue intirely upon its Credit: for what cannot one expect from a Conſtitution ſo happily framed, which hath no means left to procure its own Good, but by procuring the good of others, that is ſupported by ſo many Thouſands, as it will be after its Ingraftment; and which ſets to it ſelf a Rule, to ſtudy nothing ſo much, as the promoting the Eaſe, Conveniency, and Accommodation of all People?

I ſhall conclude with ſome few Remarks, *viz. Firſt*; That no other Bank gives out Notes payable to the Bearer, they all keep to a Transfer, excepting the Bills payable to Order allow'd by their Settlement. Such as have a mind to place their Money in the Bank, muſt bring it thither, and there they have Credit given them for the Sums they bring: This preſerves the Majeſty of the Bank, prevents Cheats and Counterfeits, hinders inconſiderable Dealers from having to do with the Bank; which by this means keeps within a certain Compaſs of great Buſineſs, avoids Confuſion and a great deal of unneceſſary Trouble: Banks being indeed only for the Conveniency of great Payments, and not to keep the Caſh of every petty Retailer; to do both is inconſiſtent, and not practicable where there is much Trade. In *Amſterdam*, there are a great many Caſhiers who keep the ſmall Caſh of Merchants

chants and others, no Body being allow'd to transfer a leſſer Sum than 300 Gilders or 30 *l.* in the Bank-Books, without a Penalty.

Secondly; That no Bank, unleſs on ſome emergent occaſion, ever paid Intereſt, except the B. of *E.* the Managers whereof drew upon themſelves the great Inconveniency they lay under of paying ſo much Intereſt, by their Ambition of graſping at all; therefore if nothing be undertaken for the future, but what is regular and according to the true Nature of a Bank, it needs not pay Intereſt, when 'tis once a float.

Thirdly; A Bank muſt never preſume upon its own Merit, or pretend to have done Services; it becomes a Bank of all other Conſtitutions, to keep within the Bounds of Modeſty; it hath nothing of its own; when it lends Money, 'tis other Peoples Money; the Government is not oblig'd to the B. of *E.* for having lent it great Sums; the Government is oblig'd to thoſe Perſons whoſe Money it was, and who now ſuffer for it: (althô ſome, who had the chief hand in lending the laſt 200000 *l.* when the E. of *P.* came over, claim a great Merit to their F——, whoſe Health for that Service was drunk as often, as the Health of *John* King of *Poland*, after his Raiſing the Siege of *Vienna*, if what they have expreſt themſelves may be believ'd.) If a Bank boaſts of its Loans, it gives Offence to thoſe who enabled it to lend, and conſequently they will withdraw their Caſh.

To ſum up all, the Author of the Letter againſt Ingrafting did, as he ſaith, ſubſcribe to the Bank, in hopes to get ſomething beſides the 8 *per Cent.* In order thereunto, the Bank did trade in Exchanges and Bullion; it did run great Hazards both by Sea and Land; it diſoblig'd abundance of People, and drew upon it ſelf the hatred of the Merchants; and notwithſtanding all this, it did not get the 2 or 3 *per Cent.* but loſt its Credit and Reputation.

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The Author of this Diſcourſe came alſo into the Bank, in hopes to make ſome Advantages of his Money, and for that purpoſe could have wiſht the Bank had not meddled with any kind of Trade whatſoever, but had kept to the following Rules, *viz.*

To lend upon good Pawns at a very low Intereſt.

To diſcount Bills of Exchange at a very low Rate.

To take Tallies at *par*, that had a very ſhort time to run.

By theſe Methods, the Bank had been ſerviceable to all Men; it had got wherewithal to defray its Charges; it had maintain'd its Credit and Reputation; in ſhort, it had been able to divide the 100000 *l.* a Year upon 600000 *l.* Stock or leſs, which is 16 *per Cent.* at leaſt *per annum.*

Now which of theſe two Methods is moſt proper for a Bank, and moſt conducive to its Advantage and Proſperity, is left to the Judgment of thoſe, who ſhall pleaſe to conſider of it.

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